

Company Name : Metronic Global Berhad
Stock Name : MTRONIC
Stock Code : 0043
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Type : Announcement

Subject : BUILD, OPERATE AND TRANSFER CONCESSION AGREEMENT TO UNDERTAKE A CONCESSION FOR THE CONSTRUCTION OF WATER TREATMENT PLANT, PRODUCTION AND SUPPLY OF SAFE DRINKING WATER IN LAI'AN COUNTY, ANHUI PROVINCE IN THE PEOPLE'S REPUBLIC OF CHINA

Contents : The Board of Directors of Metronic Global Berhad is pleased to announce that Metronic has on 2 February 2009 entered into a 33 years build, operate and transfer water concession agreement with Lai An County Water Utility Board, Anhui Province in the People's Republic of China for the design, construction, production, operation, maintenance and sale of treated water in Lai'An County, Anhui Province in the People's Republic of China.

Announcement Details:

1. INTRODUCTION

The Board of Directors of Metronic Global Berhad ("Metronic") is pleased to announce that Metronic has on 2 February 2009 entered into a 33 years build, operate and transfer water concession agreement ("BOT Water Concession Agreement") with Lai An County Water Utility Board ("Water Utility Board"), Anhui Province in the People's Republic of China for the design, construction, production, operation, maintenance and sale of treated water in Lai'An County, Anhui Province in the People's Republic of China.

Upon the execution of the BOT Water Concession Agreement, a wholly owned special purpose company, namely Anhui Lai'An Metronic Water Supply Co. Ltd ("Project Company") will be established by Metronic for the investment, design, construction, financing, production and sale of treated water to the public, industries and commercial entities in Lai'An, Anhui Province in the People's Republic of China. A joint venture company, which principle activities are for operation, maintenance and collection ("O&M Company") will also be established by the Project Company on 70:30 basis in conjunction with Lai'An entrepreneurs ("Lai'An Investors").

The BOT Water Concession Agreement is for a period of 33 years (inclusive of 3 years construction period) with an investment outlay of approximately RMB23 million (equivalent to RM12 million at an exchange rate of RMB1 equals to RM0.52) by the Project Company.

2. INFORMATION ON LAI AN COUNTY WATER UTILITY BOARD (“WATER UTILITY BOARD”)

The Chinese National Development & Reform of Agricultural Economics Commission has in its ‘Notice of Strengthening of Rural Safe Drinking Water Construction and Operation Project’ under the Document Issued to Farmers (2007) No.1752 appointed the Lai An County Water Utility Board to be primarily responsible for the development of Lai An County Safe-Drinking Water Treatment Plant and the public tender of the BOT Water Concession Agreement in Lai An County, Anhui Province in the People’s Republic of China.

Metronic was awarded the Letter of Award by the Water Authority Board on 2 December 2008. According to the tender documents, parties are given up to a period of three (3) months to enter into the BOT Water Concession Agreement.

3. INFORMATION ON THE PROJECT COMPANY AND THE O&M COMPANY

3.1 INFORMATION ON THE PROJECT COMPANY

Presently, the Project Company has no registered capital. The reserved name of “Anhui Lai’An Metronic Water Supply Co. Ltd” has been approved by the relevant china governmental authorities. Metronic has up to 5 June 2009 to incorporate and subscribe for the proposed registered capital for the Project Company. The proposed registered capital for the Project Company is USD3.35 million (equivalent to RM12 million at an average exchange rate of USD1 equals to RM3.60). Upon incorporation, Metronic is to subscribe up to 15% of the registered capital of the Project Company, with the balance payable within three (3) years from the date of incorporation. An announcement will be made in due course once the Project Company is incorporated.

The Project Company shall be responsible for the costs and funding for construction of the water treatment plant under the BOT Water Concession Agreement, which is estimated to be approximately RMB61 million (equivalent to RM32 million at an exchange rate of RMB1 equals to RM0.52).

3.2 INFORMATION ON THE O&M COMPANY

The O&M Company is a joint venture company, which principle activities are for operation, maintenance and collection of bills issued by the Project Company. It is to be established on 70:30 basis jointly owned by the Project Company and Lai’An Investors. Details of the O&M Company such as the proposed name, registered capital and subscribers have yet to be established. An announcement will be made in due course once the O&M Company is incorporated.

4. TOTAL CAPITAL AND INVESTMENT OUTLAY

The total capital and investment outlay for Metronic shall be approximately RMB23 million (equivalent to RM12 million at an exchange rate of RMB1 equals to RM0.52) (“Proposed Investment”).

5. BASIS OF ARRIVING AT THE TOTAL CAPITAL AND INVESTMENT OUTLAY

The BOT Water Concession Agreement is secured through public tender organised by Water Utility Board. The total capital and investment outlay is determined based on willing-buyer-willing-seller basis after taking into consideration the government grant of up to RMB15 million (equivalent to RM7.8 million at an exchange rate of RMB1 equals to RM0.52), the intention of the China Government to promote safe-drinking water for rural residents and economic zone in Lai’An as part of the harmonisation economic development plan for Lai’An County with Nanjing City as well as the current market conditions for China’s concession for safe-drinking water treatment plant.

6. SALIENT TERMS AND CONDITIONS OF THE BOT WATER CONCESSION AGREEMENT

The salient terms and conditions of the BOT Water Concession Agreement are as follows:-

- (i) The Concession period is for 33 years (inclusive of 3 years construction period commencing from 1 February 2009 to 2 February 2012). The concession period is from 2 February 2012 to 1 February 2042. During the construction period, if the Metronic / Project Company manage to complete the construction works earlier and also able to supply the water services based on the BOT Water Concession Agreement, the BOT Water Concession shall be deemed begin from the date on which the water supply notification is issued or deemed issued by the Water Authority Board. Notwithstanding that, the BOT Water Concession Agreement shall not be deemed ended earlier, and the expiry date for the BOT Water Concession shall still remain effective up to 1 February 2042.
- (ii) The designated areas for the BOT Water Concession Agreement are all the administrative regions of Chahe Town (include Chahe Newtown, Wangbodang Farm), Chuikou Town, Daying Town and Sancheng Town.
- (iii) The target commencement of construction work for the 30 MDL water treatment plant shall be by 18 April 2009, in which the construction for Phase 1 is 15 MLD and balance 15MLD in Phase 2.

- (iv) The total construction cost for the water treatment plant shall be RMB61 million (in which RMB15 million will be in the form of government grant).
- (v) After the commencement of the water treatment plant, the Water Authority Board shall not approve any new groundwater intake for industrial or domestic usage in the designated service. The Water Authority Board shall not renew any groundwater intake and usage licence and will take necessary legal action toward all illegal intake and usage of the groundwater.
- (vi) Metronic / Project Company shall be granted the first right of refusal to consider any future projects to be awarded by the Water Authority Board, which among others may include to take over the management and operation of the existing 30 MLD water treatment plant in Lai'An County.
- (vii) Upon the expiry of the concession period, the Project Company shall transfer the project facilities as defined in the BOT Water Concession Agreement in good condition at no costs to the Water Authority Board as its designated organization.

7. SOURCE OF FUNDS

Metronic will fund the Proposed Investment in the Project Company and the construction of the water treatment plant in accordance with the BOT Water Concession Agreement through its internally generated funds and bank borrowings.

8. LIABILITIES

Save for the liabilities to be incurred in the ordinary course of business, there are no liabilities, including contingent liabilities and guarantees to be assumed by Metronic, arising from the Proposed Investment.

9. FINANCIAL EFFECTS OF THE PROPOSED INVESTMENT

9.1 Share Capital and Substantial Shareholders' Shareholding

The Proposed Investment does not have any effect on the issued and paid-up capital and substantial shareholders' shareholding of Metronic Group.

9.2 Net Assets and Gearing

The Proposed Investment will not have any material effect on the net assets and gearing of Metronic Group for the current financial year. However, it is expected to contribute positively in the future net assets of the Group.

9.3 Earnings

The Proposed Investment will not have any significant effect on the earnings of the Metronic Group for the current financial year. However it is expected to contribute positively to the future earnings of the Group.

10. RATIONALE

The rationale for the Proposed Investment is to enable Metronic Group to invest in the water concession business by tapping into the potential growth and lucrative recurrent revenue offered by the Chinese market in-line with China's urbanization and awareness in environmental protection and need for safe-drinking water for rural, commercial and industrial development.

Lai'An Country is approximately 60km away from Nanjing City, which has served as the national hub of education, research, transportation and tourism for the People's Republic of China. The Board of Directors of Metronic believes that given the location of the water treatment plant ie: Chahe Town is only 15km away from Nanjing City and it is located in the boundary of Jiangsu Province and Anhui Province, bordering the new high technology development areas of Nanjing and has a very good potential to be a major economic development zone due to its close proximity to Nanjing City and rising modern infrastructure around the area. The Proposed Investment is expected to generate positive impacts for the Metronic Group in the medium to long term.

11. PROSPECTS

The demand for safe drinking water is on-going and perennial in the People's Republic of China and the Board of Directors of Metronic believes that the demand for safe drinking water will increase along with the growth in population in particular with the growth potential for the industrial zone which is close in proximity with Nanjing City.

The Proposed Investment is expected to provide a steady stream of revenue, profit and cash flow to the Group. The BOT Water Concession Agreement has also granted Metronic Group the first right of refusal to manage and operate the existing water treatment plant as well as other future water treatment plant in the Lai'An County; this may further add to the 30MLD capacity awarded to Metronic in accordance with the BOT Water Concession Agreement.

12. RISK FACTORS

The risk factors associated with the Proposed Investment, which may be non-exhaustive, are summarised below. Notwithstanding that, the Board of Directors of Metronic Group is not aware of any other risks arising from the Proposed Investment which could materially or adversely affect the financial and operating conditions of the Metronic Group.

12.1 Political, economic and regulatory consideration

Any adverse development in political, economic and regulatory conditions in the People's Republic of China could materially and adversely affect the financial and business prospect of the Metronic Group. Despite that, based on the current economic and political development in the People's Republic of China, the Board of Directors of Metronic Group do not foresee any material factors affecting the financial and business prospect for investment in the People's Republic of China in the medium to long term.

12.2 Business risks associated with water treatment industry

The business operation will be subject to certain risks inherent in the water treatment industry. Some of the risks include construction and operational risks inherent in the BOT project. Despite that, the Board of Directors of Metronic Group is of the view that such business risks can be mitigated through effective project management and close working co-ordination and co-operation with the Lai'An Water Authority Board and Lai'An Investors.

12.3 Collection risk

The Proposed Investment is exposed to the risk of non-collection of fees from the users of the water, which include among others, the public, commercial and industrial users. Notwithstanding that, the Board of Directors of Metronic Group intends to mitigate the risk for collection through the joint venture with the Lai'An Investors in the O&M Company to assist in the collection from the users. Also, according to the BOT Water Concession Agreement, it is the responsibilities of the Water Authority Board to shut down all groundwater and strictly enforce the utilisation of the treated water by the various users which Metronic believes will further minimise the collection risk.

13. ESTIMATED TIMEFRAME FOR COMPLETION

Barring any unforeseen circumstances, the construction for the drinking water treatment plant is expected to be completed within the construction period as stated in the BOT Water Concession Agreement upon obtaining the approval of all relevant government regulatory authorities in the People's Republic of China.

13. APPROVALS REQUIRED

The Proposed Investment is not subject to the approval of the shareholders of Metronic but it is subject to the approval being obtained from the relevant government authorities in the People's Republic of China, or any other third party (including banks and other financial institutions).

14. APPLICATION TO THE AUTHORITY

Application to the relevant governmental or regulatory authorities is expected to be submitted within 30 working days from the date of the BOT Water Concession Agreement.

15. DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTEREST

None of the Directors, major shareholders of Metronic or the Project Company and/or persons connected to them have any interest, direct or indirect in the Proposed Investment.

16. STATEMENT BY DIRECTORS

The Board having taken into consideration all aspects of the Proposed Investment is of the opinion that it is made in the best interests of Metronic Group.

17. COMPLIANCE WITH SECURITIES COMMISSION'S POLICIES AND GUIDELINES ON ISSUE/OFFER OF SECURITIES

To the best knowledge of the Board, the Proposed Investment does not depart from the Securities Commission's policies and guidelines on issue/offer of securities.

18. DOCUMENTS AVAILABLE FOR INSPECTION

The BOT Water Concession Agreement will be available for inspection during normal business hours on Mondays to Fridays (except Public Holidays) at the Registered Office of Metronic at No. 4, Tingkat 2, Jalan 3/27F, Desa Setapak, Wangsa Maju, 53300 Kuala Lumpur from the date of this announcement.
